Vietnam: Reconstruction and The Postwar Economy

An Intelligence Assessment

Approved For Release 2002/08/12 : CIA-RDP80T00702A000400070008-2

Next 1 Page(s) In Document Exempt

25X1

Vietnam: Reconstruction and the Postwar Economy

Central Intelligence Agency
National Foreign Assessment Center

October 1978

Key Judgments

25X1

More than three years after the fall of Saigon and over two years since Hanoi's declaration of unification, there has been little progress in raising Vietnamese output and living standards beyond levels of 15 years ago. The largely agricultural, market-oriented southern economy has yet to recover from its near collapse of 1975 and is only slowly being integrated into the more industrialized, Communist system of the north.

25X1

Output goals under the current five-year plan (1976-80) and the rapid development of an efficient integrated economy are becoming less and less attainable. In particular, targets for gains in gross national product (GNP) averaging about 15 percent annually and for achieving food self-sufficiency by 1980 are now well out of reach. Last year, for example, real GNP was only 3 percent above 1974. At the same time, Hanoi had to import 1.5 million tons of wheat and rice. Imports this year will be even greater because of severe flood damage.

25X1

Lack of progress in attaining economic goals is strengthening pressures within the Hanoi Politburo to push for more rapid integration of both economies before 1980. Thus, in March 1978 the government nationalized the commercial sector in the south. The action, which struck heavily at Vietnam's 1.5 million ethnic Chinese, is intended to eliminate the freewheeling private market in the south and to bring the distribution and pricing of scarce commodities fully within the government orbit. This effort and others that will probably follow are more likely to constrain than to hasten economic growth over the next few years.

For the moment, Hanoi remains wary of socializing land holdings too quickly in the sensitive southern agricultural sector. Most established farms in the Mekong Delta remain privately owned, even though farmers must increasingly deal with state agencies in purchasing necessary inputs and disposing of their products. Despite this go-slow approach in expanding state ownership, agricultural production in the south has lagged. Mekong Delta farmers believe government takeover of their land is inevitable and have responded by growing only enough to meet compulsory sales to the state and the needs of their families. In these circumstances, Hanoi stands little chance of boosting southern grain output enough to offset the annual shortfall in northern areas of 500,000 to 1 million tons. Total staple food production last year—13 million tons—barely matched the combined 1974 level for North and South Vietnam. 25X1

25X1

Hanoi's most ambitious postwar effort in agriculture and at socioeconomic reform is embodied in the "New Economic Zones"—primitive areas in the countryside set aside for agricultural development. The areas are Hanoi's attempt to deal with millions of urban unemployed, lagging food production, uneven population distribution,

25X1

and inadequate political control in some southern areas. The government has pressured but, unlike neighboring Cambodia, has not physically forced, city dwellers to resettle in these areas. About 1-1.5 million people have been moved, but many have drifted back to the cities because of harsh living conditions in the new areas. So far, very few of these areas have actually supplied an agricultural surplus to the state.

Industrial enterprises have recovered from most of their wartime damage, but, on the whole, the sector is producing below plan targets. Southern industry—largely textiles, food processing, and light metal manufactures—is still operating well below capacity. Industry there is Hanoi's next likely candidate for nationalization with the aim of restructuring output to reflect peacetime economic circumstances. Currently, ownership in southern industry is a melange, ranging from pure private enterprise to full state control.

25X1

Table 1

Vietnam: Selected Economic Indicators

25X1

	1974	1975	1976	1977
	Index: 1974=100			
Real GNP	100	87	98	103
Agricultural Production	100	90	107	102
Industrial Production	100	85	89	98
	Million Metric Tons			
Staple Food Output	12.9	11.5	13.2	13.0
Of which:				
Paddy Rice	12.1	10.6	12.0	11.2
	Million US $			
Imports	2,000	900	800	900
Exports	250	160	250	300

Vietnam's chronic trade gap—$600 million and growing—still must be covered by foreign aid. The bulk of postwar aid—pledges totaling $5.6 billion—is being supplied by Vietnam's Communist allies. China's recent suspension of all economic aid to Vietnam will trouble but not cripple the languishing economy. Non-Communist aid remains small despite an initial flurry of postwar offers. Western donors have been turned off by Vietnam's demonstrated inability to absorb the amount of aid already lined up. The large gap between aid pledges and completed projects reflects a variety of factors including:

25X1

- Slow decisions on organizing aid programs by Vietnamese policymakers.
- Insufficient managerial and technical talent.
- Hanoi's reluctance to allow Western advisers and technicians into the country.
- A port and transportation infrastructure not up to the task of efficiently absorbing aid.

Hanoi is interested in attracting foreign investment but so far has failed to garner any commitments from Western firms. One potential bright spot in foreign economic relations is the recent signing of oil exploration agreements with West German, Canadian, and Italian firms, although the Vietnamese have indicated they would prefer US technology and expertise. Drilling in areas originally explored by US firms before the fall of Saigon may resume by early 1979. Even if results are favorable, Vietnam will not be producing crude much before the mid-1980s.

25X1

25X1

METHODOLOGICAL NOTE

Vietnamese leaders have been surprisingly forthcoming with economic data since 1975. Hanoi has released substantial information as a condition of Vietnam's membership in the International Monetary Fund. Production data by sector as well as information on five-year plans are published regularly in the Vietnamese press; journal and press articles lamenting shortcomings in the economy also appear frequently. Nonetheless, Vietnam is still a relatively closed country and most data on the domestic economy cannot be accurately verified from other sources. Non-Communist aid and trade statistics generally are available from partner countries, but Communist aid and trade data are estimates.

25X1

Approved For Release 2002/08/12 : CIA-RDP80T00702A000400070008-2

25X1

CONTENTS

Vietnam: Reconstruction and the Postwar Economy

Postwar Policies

Hanoi's victory in 1975 wrenched the economy of South Vietnam from its material and institutional foundations. The $1 billion in annual capital inflows from Saigon's allies, which had sustained consumption and provided the bulk of raw materials and machinery for industry, quickly disappeared. Saigon's sizable army and its top-heavy services sector, built up in urban areas to serve wartime needs, suddenly became superfluous. Some 3 million people—concentrated in Saigon—found themselves unemployed. Farmers adjusted to disruption and uncertainty by reverting to subsistence production. As a result, in the space of several months southern living standards fell by more than one-third to the austere levels of the north.

Lacking both popular backing and sufficient economic control, Hanoi was not immediately able to impose a socialist institutional structure on the south. The southern people with their strong, private capitalist tradition and their accustomed higher living standards, have remained unwilling to accept the collectivized and spartan way of life of the north. The government has had to accommodate these attitudes by moving more slowly than it wanted.

Hanoi has taken a stab at unemployment and at urban-rural imbalances by pressing the unemployed to move back to family farms or to primitive "New Economic Zones," which the government has set aside for agricultural development. Hanoi claims to have resettled 1-1.5 million people, but estimates are imprecise and many people have drifted back to cities because of poor conditions in the new areas.

In March 1978 the government took another major step toward integrating the south—nationalizing private commerce. The measure struck heavily at Vietnam's 1.5 million ethnic Chinese by eliminating the freewheeling private market in the south.

Hanoi also dissolved the dual currency system, which had existed in the north and south since 1975. The new currency regulations simultaneously eliminated the large cash holdings of the Chinese and other private traders. Concerned about these new moves, Chinese in large numbers have been trying to leave Vietnam. So far about 160,000 have returned to China, mostly from northern Vietnam.

For the time being, Hanoi remains somewhat wary of socializing land holdings too quickly in the sensitive Mekong Delta agricultural sector. Most established rice farms remain privately owned, even though farmers must increasingly deal with state agencies to purchase necessary inputs and dispose of their products. The new farmlands opened up to absorb urban unemployed have been operated as state or collective farms from the start. Nonetheless, there are hints that the pace of socialization may be stepped up because of dismal agricultural performance under existing arrangements.

Development Planning

Thus far the Vietnamese have made very limited progress in implementing ambitious development plans. National output since the war is only 3 percent above the 1974 level, a far cry from the 13- to 14-percent annual gain called for in the 1976-80 development plan. In 1977, real GNP is believed to have increased only 5 percent.

The current plan deemphasizes Soviet-style development of heavy industry specified in earlier plans for North Vietnam, in favor of southern Vietnam's more generously endowed agricul-

25X1

tural sector. This sector and consumer goods industries are assigned the "basic" role in development and in producing for export; heavy industry is intended to complement agriculture by providing the mechanical inputs needed to boost farm output. Of the anticipated total investment of 30 billion dong ($14 billion),[1] about half is domestic savings and half capital from Communist countries. Capital from non-Communist countries apparently has not been specifically budgeted against the investment plan.

The pace of investment has fallen off because of shortfalls in domestic savings, inefficiencies in absorbing aid, and the distractions of the border war with Cambodia and the rift with China, both of which have occupied Hanoi's time and diverted much of the military from its important economic reconstruction task. Achievement of even half the growth rate projected by the current five-year plan will require a rapid reduction of existing supply and institutional bottlenecks, unusually favorable weather conditions, stronger demand for Vietnam's traditional exports, more flexible and better utilized external assistance, and more efficient generation and collection of domestic savings.

Disappointment in Agriculture

25X1

Vietnam has been singularly unsuccessful in solving longstanding agricultural problems. Hanoi had optimistically hoped that its victory over South Vietnam would, by 1980, restore the colonial trade pattern of large southern rice surpluses compensating for northern deficits and sufficient to finance industrial development.[2] Nonetheless, continued disruption of southern production and marketing and a lack of incentive for farmers have prevented rice output from consistently reaching the peak 1974 level of 12.1 million tons of paddy, and annual grain imports of 1-2 million tons have been required. Self-sufficiency, which earlier had been physically possible by 1980, is now out of reach until the mid-1980s.

25X1

During the war years, difficulties encountered in supplying adequate quantities of food in both the north and the south were attributed to wartime conditions. Since the spring of 1975, however, food supplies have further diminished while excuses based on the ravages of war have lost credibility. Declines in agricultural productivity can, in part, be linked to adverse weather and war-related damages, but the primary problems are mismanagement and emphasis on ideology at the expense of practical and pragmatic approaches to dealing with agricultural problems.

Northern Rice Production

Rice production in the northern part of the country has been virtually stagnant over the past decade. Output varied between 4 million and 5 million tons between 1965 and 1975 but may have reached nearly 6 million tons in 1976. Throughout the war, North Vietnam imported annually 500,000 to over 1 million tons of grain—largely rice from China and wheat from the USSR—to offset lackluster production and rising consumption.

25X1

Climate and terrain in the north limit arable riceland to 2.2 million hectares, but the north has been able to double-crop about 800,000 hectares; high-yield varieties are used on about 40 percent of total planted area and account for about 60 percent of output. Future gains in the north will probably be limited to less than 5 percent annually, especially if more intensive use of fertilizer, irrigation, and machinery are not sufficient to offset a decrease in labor resulting from programs to reduce the population density of the Red River Delta.

Southern Rice Production

In the south, rice production is far below potential and still below the record 7.1 million tons grown in 1974 prior to the Communist takeover. Despite the war having limited cultivable land by about 1 million hectares to a maximum of 2.9 million hectares, rice output showed

[1] Converted at the official exchange rate; converting at a more realistic exchange rate yields anticipated investment of $7-8 billion.

[2] During the 1935-40 period, annual exports of rice from southern Vietnam averaged about 1.5 million tons. After World War II exports were resumed at a much lower level, gradually diminished, and finally ended in 1965.

steady gains from the late 1960s through 1974 from the use of high-yield varieties, fertilizers, and machines. Farmers were stimulated by relatively high incomes and an adequate supply of consumer goods. The south was near rice self-sufficiency in 1974.

25X1

The departure of Americans and other Westerners in 1975, however, crippled the long-term development effort through loss of technically trained personnel and termination of the flow of machinery, parts, fuel, fertilizer, and pesticides. Increased land and labor inputs since then have not yet offset other impediments to southern production. Nearly 400,000 hectares of new riceland have been opened in the south, mostly by laborers transferred from urban areas. Double-cropping has been promoted on about 400,000 hectares as well. High salinity in coastal regions will limit further extension of dry season area until water-control networks are constructed. High-yield varieties are used on about 30 percent of rice acreage but maximum yields are reduced by inadequate fertilization, pest control, and irrigation.

25X1

Inadequate fertilizer supplies have been a problem for the Vietnamese. Phosphoric fertilizers based on the north's extensive apatite deposits are generally sufficient but tend to be low grade. Nitrogenous fertilizer plants begun in the north in the mid-1960s and reconstructed during and after the war have had many startup difficulties and are not yet producing a significant marketable output. As a result, Vietnam must continue to rely on imports for almost all its nitrogenous fertilizer needs. Total postwar fertilizer imports are probably on the order of 400,000 to 500,000 tons annually compared with 500,000 to 600,000 tons annually during 1970-74. Severe problems of deterioration in storage, poor distribution from plants and ports to farms, and poorly developed extension services to guarantee adequate and timely fertilizer use compound existing fertilizer shortages.

25X1

Postwar Food Supply

The ending of imports from the United States and China's switch from providing foodgrain grants to making foodgrain sales to Vietnam have added to postwar domestic food supply problems. With its victory over the south, Hanoi, in addition to its own chronic deficit of 500,000 to 1 million tons, acquired a new annual foodgrain deficit of approximately 800,000 to 1 million tons—that would have to be made up through significantly increased production or purchases from abroad.

After the Communist takeover, traditional marketing arrangements were broken, supplies of inputs became uncertain, economic incentives were eliminated, and farmers became aware of the inevitable takeover of their private plots by the state. Consequently, southern rice farmers reverted to little more than subsistence farming. In addition, poor weather and increasing incidence of crop diseases and insects have physically held back production. As a result, total rice output for both the north and the south in 1977 was a disastrous 11.2 million tons—1.8 million tons below the 1977 target and 800,000 tons below actual production in 1976.

25X1

Preliminary reports indicate no improvement in rice production in 1978. In addition to frequent adverse weather throughout the year, unusually severe flooding from typhoons and rains in September caused serious damage to Mekong Delta ricefields and to a lesser extent, to fields in the Red River Delta. Moreover, the high-yield rice strains planted in 1978 proved to be particularly susceptible to insect and disease damage. If reports of severe flood and insect damage are borne out, annual grain import needs will certainly top 2 million tons.

The postwar situation would be worse without relatively rapid gains in output of secondary crops—manioc, corn, and potatoes. Measured in paddy rice equivalents, output of these crops together rose from 900,000 tons in 1975 to 1.2 million tons in 1976 and to 1.8 million tons in 1977. The crops mature quickly and require far less water than rice but are considered inferior to rice by consumers. The slaughter of cattle and hogs also rose in 1976 and 1977 in response to consumer food needs, the reduced availability of fodder, and fears of state confiscation.

The net effect of the agricultural sector's failure to meet domestic needs has been to shift development efforts away from industry and into agriculture. As the food supply worsened during 1977, industrial development projects were curtailed or reoriented to meet the needs of the agricultural sector. Throughout 1977 and 1978, food rations were tight nationwide but were reduced severely in Ho Chi Minh City (Saigon). There, residents were told to go to the New Economic Zones to grow their own food. Military units were ordered to curtail or even halt training activities and were given a major role in developing agricultural lands.

Socialization of Agriculture

Northern Vietnam

The Hanoi government was having problems with agricultural producers long before it acquired control of the southern part of the country. As recently as late 1974, one-third of the farmers in three northern provinces were reported to be totally unwilling to join state-controlled cooperatives. Many cooperatives were diverting their produce to the black market where returns were substantially higher than those obtained by selling to state buying stations. Farmers still complain that taxes at confiscatory levels and unreasonably low prices for goods sold to the state give them no reason to exert more than minimal effort to expand production. Nonetheless, private plots currently account for only 5 percent of overall agricultural production in the north.

Vietnamese officials are especially frustrated because agricultural production in the north has not increased substantially since 1955, despite the existence of collectives for over 20 years and an increase in the number of farm workers over the past three years. The socialization program in the north is continuing the consolidation of cooperatives into larger, more economical units of 300 to 400 hectares and developing more state farms. Currently there are probably less than half the peak level of 41,000 cooperatives that existed in 1960, but they are substantially larger in area. The state farms in the north now number only several hundred and produce mostly industrial and plantation crops, such as coffee, tea, and jute. Ultimately, Hanoi intends for all agricultural production to take place on large, wage-labor, state farms.

Southern Vietnam

Southern agriculture—and hence total food output—will languish in uncertainty as long as the transformation of production from highly capitalist to socialist remains incomplete. In the year immediately following South Vietnam's demise, Hanoi appeared content to socialize agriculture only slowly, except in the central provinces where the authorities had both the control to force rapid socialization and the cadre to manage a socialized agricultural sector. In the Mekong Delta, however, Hanoi was wary of repeating the 1956 doctrinal disaster that forced collectivization of farms in North Vietnam at the expense of some 100,000 lives.

Socialization has taken place most intensely in the central areas stretching from Binh Tri Thien to Thuan Hai Provinces. Most of the south's 130 to 140 agricultural cooperatives are located in this area. After the establishment of agricultural committees in April 1975, confiscation of agricultural lands in these provinces began almost immediately, beginning with fields belonging to plantations, private holdings of those who supported the former government, and lands and fields of religious organizations. The emphasis on secondary and industrial crops in this region and dependence on rice from other areas facilitated socialization. Nonetheless, even here socialization is incomplete and consists largely of simple work exchange teams and production collectives.[3]

[3] Hanoi views the "cooperativization" of Vietnamese agriculture as a three-stage process. The first step is the establishment of "mutual aid" or "labor exchange" teams which can either be seasonal or year-round, but which are considered merely the early stages of socialism. In the second stage, peasants join low-level agricultural cooperatives in which some implements are owned in common and private land ownership rights are only partly dissolved. In the third stage, higher level agricultural production cooperatives are organized; these are considered fully socialistic and require that all means of production, including land, be owned in common. The process is not simultaneous throughout the country and a mixture of stages exists at any one time.

Hanoi rates only half of all southern cooperatives as "good." Most of the cooperatives are not an optimum size, they tend to act independently instead of coordinating plans at district and provincial levels, and there are not enough properly trained party functionaries to manage them.

South of Thuan Hai, and especially in the Mekong Delta, socialization is piecemeal. Areas long under Communist control during the war—such as parts of Minh Hai and Kien Giang—are heavily socialized, and all New Economic Zones have been socialized from the start. Otherwise, the government has tried to tighten control over private farmers by taxing away as much as 50 percent of output and by requiring them to purchase needed fertilizer, tools, and other inputs from state agencies with payment in produce. "Pilot cooperatives" have been set up in many districts in hopes that a demonstration effect will sway peasants to reform voluntarily. So far, farmers have resisted socialization. They have limited surplus production because of high tax rates and because a lack of consumer goods makes valueless the chits earned by rice sales to the state.

This passive resistance by southern farmers may no longer be tolerated by Hanoi. State grain collection has fallen steadily since 1976 and production is not rising as fast as possible. Hanoi probably has not abandoned its goal of socialization by 1980, and the sweeping nationalization of commerce in March 1978 appears to be a prelude to more rapid change in the agricultural sector. Significantly, the architect of North Vietnam's bloody 1956 land reform, Truong Chinh, is now Chairman of the National Assembly. So far he has been restrained only by Premier Pham Van Dong's desire to explore more pragmatic methods first. Should forced collectivization come to pass, it will place tremendous hardships on the rural peasantry and undoubtedly will generate strong resistance from them.

Given the chaotic condition of agriculture in the south, forced collectivization may be the most effective means of mobilizing production to meet state needs. But whether it can be accomplished by the early 1980s is another question. Formal socialist organization of agriculture in the People's Republic of China, for example, was carried out only after eight years of preparations, and the groundwork for agricultural reform in northern Vietnam was begun in 1945 under the Viet Minh, with comprehensive socialization first initiated in 1959 after land reform was implemented.

Regardless of the pace of socialization, Hanoi's goal of rice self-sufficiency by 1980 is now out of reach. It would require annual output gains of some 10 percent, measured from the 1976 level of 12 million tons, which Vietnam has neither the technology nor the expertise to achieve. Under the existing pace of socialization, and if farmers have some material incentives to boost output, growth rates of about 5 percent could result in self-sufficiency by 1985. If Hanoi moves too quickly now to collectivize Mekong Delta farmlands, output will likely stagnate or fall for several years as reforms sink in. Should output then rebound, perhaps growing by 5 to 10 percent annually, rice self-sufficiency still would not be attained until the mid-1980s.

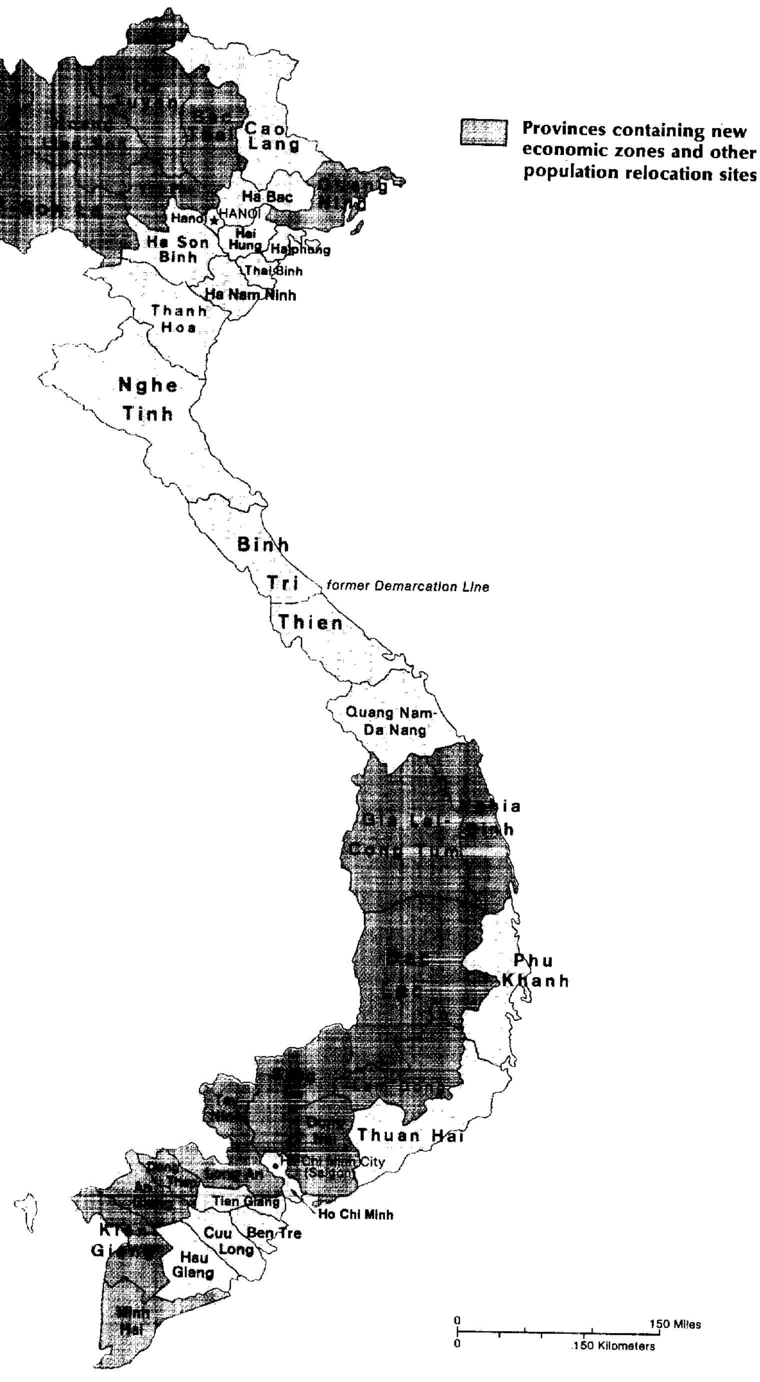
New Economic Zones

The so-called New Economic Zones are the key to restructuring Vietnamese society. The zones are the vehicle through which Hanoi plans to relocate and provide work for millions of people displaced by the war, to redistribute population from the overly dense Red River and Mekong River Deltas, and to increase food production.[4] The resettlement program also performs a political and social function by inserting more trustworthy northerners among the less

[4] During the war, large numbers of people in the south fled to the cities, creating a labor shortage in the rural areas and contributing to low agricultural yields. Ho Chi Minh City's population, for example, grew at the extraordinary rate of 7 percent annually between 1960 and end 1975, climbing from 1.4 million to nearly 4 million. At the close of the war, the south was over one-third urbanized, while only 10 percent of the population in the north lived in cities of more than 20,000. The population of Vietnam is currently estimated to be 51.2 million. It is divided fairly evenly between north and south and is growing at the rate of 2.6 percent annually.

Vietnam Provinces*

**Based on map "Hanh Chinh Viet Nam," Hanoi, 1976*



577465 9-78

ideologically committed southern population. Hanoi hopes to resettle 4 million people between 1975 and 1980, including 1.5 million people from Ho Chi Minh City. Long-range plans call for the relocation of 10 million people nationwide by 1990.

25X1

The settlements are located on farmlands abandoned during the war or on large tracts of previously uncultivated land. Zones usually contain 4,000 to 5,000 hectares each, enough land for over 1,000 families. The south has the greatest number of zones with 82 reportedly established as of March 1978.

The zones are organized differently depending upon their location and the objectives of Vietnamese officials. Some, for example, are little more than villages run by committees trained and appointed by the Communists; others serve as reeducation camps for former South Vietnamese Army officers. Sites in the south have been selected for relocation of much of the urban population in the south; other areas throughout the country are designated for resettlement by residents of the cities of central Vietnam, for resettlement of Montagnards, and for receiving the surplus population from the Red River Delta of the north. Large zones in the south are run as collective and state farms from the start and form the nucleus for the full socialization of the agricultural sector there. In the north, many of the new zones are the basis for consolidating small cooperatives and expanding wage-labor state farms.

25X1

25X1

Anywhere from 1 million to 1.5 million persons already have been relocated in the zones. An April 1978 Hanoi news report stated that 1.5 million South Vietnamese, including 660,000 urban dwellers, had returned to their native villages or had moved to the zones during the preceding three years. The chairman of the State Planning Commission has said that 1 million people were resettled in 1976-77. A news report from Ho Chi Minh City in April 1978 stated that 750,000 residents of the city had moved to the countryside since the end of the war.

The range in the estimate for persons moving to the zones may reflect the fact that many people have returned to urban areas after being relocated. As many as 250,000 to 500,000 are believed to have returned to Ho Chi Minh City, giving that city a current population of about 3.5 million. In any event, resistance from southern urban residents to resettling appears to be increasing. In some towns, as many as 70 percent of those ordered to the zones managed to avoid deportation. Refugees from Ho Chi Minh City estimate that only 20 percent of those ordered to resettle have actually gone and not returned.

25X1

The relocation problem reflects the harsh living conditions in the new economic zones. A foreign journalist who visited some zones called them "the Vietnamese equivalent of Siberia." Refugee reports depict them as death camps guarded by armed cadres where the work is arduous, provisions few, housing frequently nonexistent, and the chances of starvation high.

25X1

Officials in Ho Chi Minh City acknowledge that, in the rush to relocate people, sites are often improperly prepared. Army units, normally engaged in clearing land and improving irrigation in the zones, have been diverted by hostilities along the Cambodian border. Ensuing skirmishes have actually destroyed a number of the sites in Tay Ninh, Dong Thap, An Giang, and Kien Giang Provinces, forcing the government to slow programs for resettling the thinly populated areas along the Cambodian border.

Hanoi may be setting the stage for a more radical use of zones to transform South Vietnamese society. The March 1978 decree nationalizing all private commerce deprived merchants of their livelihood and made them instant candidates for movement to relocation sites. Moreover, the unemployed, former soldiers and government officials, and skilled and unskilled laborers are being compelled to move to the agricultural frontier. To enforce resettlement, for example, Hanoi is denying rations and identification cards to those scheduled for the zones, leaving them no alternative except to go.

Industry

Industrial enterprises have recovered from most of their wartime damage, but on the whole

25X1

25X1

the sector is producing below plan goals. Industrial production has increased about 10 to 15 percent annually since its 1975 low. Large northern installations that were put back on stream soon after the end of the war account for the bulk of the increase. Most branches of heavy industry, notably electric power, metallurgy, chemicals, cement, and coal [5] are exceeding scheduled targets. Light industries, such as food processing, paper, plywood, glassware, plastics, and detergents, are generally producing on or slightly below target. Production of building materials, fertilizer, machinery, spare parts, and almost all consumer goods is well below planned levels.

Shortfalls in consumer goods and light manufactures reflect the failure of southern industry to recover after 1975. In the turmoil of South Vietnam's fall, many installations were damaged by northerners and southerners alike. Later, machines were indiscriminately removed and sent north on Hanoi's orders. The refugee exodus in 1975 included most of the south's capable industrial managers and skilled technicians. In addition, southern industries depended to a high degree on imports of raw and semifinished products, which have neither recovered to previous levels nor been augmented by domestic supplies. We do not have reliable data on the south's industrial output, but it is probably operating between 50 and 60 percent of capacity.

25X1

Much of the poor progress in the industrial sector nationally is due to a lack of labor motivation, efficient organization, and skilled management. Labor productivity is low. Industrial workers put in less than 22 days per month compared with the 26 days per month required by the state. Only 1,900 hours per year out of a required 2,400 are spent on the job. In administrative positions, the actual number of workdays and hours put in on the job is even smaller. Moreover, even when on the job, workers seldom produce efficiently.

Managerial and administrative shortcomings have an impact throughout the country. North Vietnamese industry had been organized on a highly centralized, wartime footing to minimize demands on the limited number of management cadre available for civilian service. This corps is now insufficient to run a peacetime planned economy nearly doubled in size.

[5] The coal industry, however, will face problems this year because of China's cancellation of aid to several coal mine projects and cutbacks of coal imports from Vietnam, and a recent falloff in coal sales to Japan.

To simplify administration and make industrial production more efficient, Hanoi is gradually organizing planning around the district level. Major critical industries such as steel, coal, and electric power will still be administered from Hanoi but for most others production planning will be done by local organs considering the material and labor resources within the district. Moreover, economic contracts instead of government fiat are slowly becoming the vehicle for interenterprise and state-enterprise transactions. This development should rationalize decision-making and reduce the burden on central planners. These and other reforms, however, will only slowly boost industrial output.

Socialization of Industry

The post-1975 socialization of southern industry has not followed a specific plan.[6] Immediately following Saigon's collapse, Hanoi nationalized public utilities, large factories, and the several enterprises formerly operated by the South Vietnam Government. Since then, Hanoi has moved slowly, largely reflecting its lack of capital and trained managers to take over fully all southern enterprises. As such, the remainder of the industrial sector consists of a melange of institutional structures. Depending on a firm's size, labor force, and kind of output, enterprises have been reorganized under either majority state control, equal state and private participation, or majority private control. Only small shops producing socially acceptable goods remain wholly privately owned.

25X1

Southern industry is the next candidate for full socialization. Firms are already financially tied to the state banking system for capital funds and payroll accounts. As trained managers become available, they are inserted into enterprises to organize both labor and management along

[6] The industrial sector of North Vietnam was essentially socialized by 1960.

25X1

Communist lines. State contracts are increasingly being used to consolidate control and to link firms more closely with central planners. Communications, transport, construction, and building materials industries have been almost totally nationalized. The nationalization process should be nearly completed within a year, after which the sector will comprise state firms, joint state-private enterprises, small enterprise cooperatives, and artisan and handicraft cooperatives. Cottage industries will probably remain in private hands but operate under sales contracts with the state.

Hanoi considers the reorganization of southern industry an economic as well as an ideological necessity. There is not enough foreign exchange available to provide the same level of imports of raw materials and intermediate goods previously required. The disruption of free markets prevents the efficient allocation of labor, materials, and output. Finally, the pre-1975 industrial structure was not geared to providing goods to support the agricultural sector, to supplying basic consumer needs, or to promoting regional development outside the Ho Chi Minh City area.

Trade Nationalization

25X1

The nationalization of commerce in March 1978 is causing short-term disruptions to the economy in both the south and the north. The movement of now-unemployed merchants to the countryside and the exodus so far of 160,000 overseas Chinese will deprive the economy of skilled workers and entrepreneurs and put a greater burden on ill-equipped state organizations to fill the gap. Over the longer run, the nationalization of all trade will solidify government control over the distribution of goods and facilitate the functioning of a Communist economy.

The nationalization struck most heavily at the 1.5 million Chinese, 85 percent of whom live in the south and controlled the commercial sector there, although the fewer Vietnamese merchants suffered as well. Hanoi claims that some 40,000 "capitalist trading enterprises" operated in Ho Chi Minh City alone. Because of shortages and general economic disruption, many merchants had speculated heavily in both basic consumer and luxury goods during the past three years. Most of these large inventories were confiscated and shops closed by the nationalization order. Some small shops, however, were allowed to reopen under strict government control.

For the most part, merchants are being pressured to migrate to the New Economic Zones in the wake of nationalization. Hanoi is distinguishing between small traders and wealthy capitalist speculators, however, in its treatment of merchants. Some 300,000 of the former will be integrated into the state store system as much as possible. If jobs cannot be found, the small traders will be sent to local production enterprises or finally to New Economic Zones.

25X1

The nationalization of trade was an inevitable response by Hanoi to both political and economic pressures. Politically, nationalization of the commercial sector, which as in most Southeast Asian countries historically had been dominated by overseas Chinese, was a show of strength against China's support of Cambodian military action against Vietnam. It also served as a curb on possible internal dissent by a large ethnic minority whose loyalties were questionable. Economically, Hanoi could no longer tolerate a relatively rich, freewheeling, commercial sector in the midst of its attempts to socialize the south and to distribute goods in short supply in an orderly and equitable manner.

The nationalization will lower southern living standards in the near term by depriving consumers of a wide array of goods. Consumers were willing, for example, to pay as much as 10 times the official price of rice in private markets to meet food needs not covered by rations. The private market also supplied the limited amount of clothing and consumer durables that were available. Now, consumers must buy from state stores that are only in an embryonic stage of organization and are poorly stocked. Reports of corruption and mismanagement suggest that the distribution of goods for now may be even less equitable than under the former private market.

25X1

The nationalization edict was not limited to the south. Since the mid-1950s, urban markets in

25X1

the north had operated on a system of state stores augmented by an officially condoned, moderately regulated, private market. The state tolerated the private market because of the government's admitted inability to distribute sufficient goods especially under the pressures of wartime. Many of the north's 260,000 to 300,000 Chinese were merchants who operated this system. Their forced withdrawal from commerce will limit the availability of goods in the north, although to a lesser extent than in the south, because of the smaller size of the private "market basket" there and the better organization of state stores.

Foreign Economic Relations

Trade and Aid

25X1

Foreign assistance is critical to Vietnam's development. A large foreign exchange gap must be covered by foreign aid. Vietnamese imports totaled about $900 million last year and will rise steadily—as both a necessity for and a result of economic development. Moreover, in any given year poor weather can cause a substantial share of imports to be devoted to foodgrains. Exports, on the other hand, were only about $300 million last year, but should grow if Vietnam can find markets to replace reduced coal sales to China and Japan and can promote other mineral and agricultural products. An unknown share of exports, however, is tied to barter or aid-payment agreements with Hanoi's Communist allies and thus does not generate foreign exchange that can be spent flexibly and efficiently. The foreign exchange gap—now at least $600 million—will likely grow to between $800 million and $1 billion before contracting in the early to mid-1980s when balance-of-trade prospects should improve.

25X1

A large savings gap must also be covered by foreign aid if Vietnam's investment plans are to be realized. The 1976-80 plan calls for $1.4-1.6 billion in annual investment; about half to be financed by domestic savings (largely taxation and state enterprise profits) and half by foreign capital (largely foreign aid). To date, production shortfalls, tax collection difficulties, and the failure to mobilize a large southern agricultural surplus have limited domestic savings and put a greater burden on foreign capital.

25X1

Inadequate foreign capital per se is not at the root of Vietnam's dismal postwar economic performance. Since 1975, Hanoi has lined up aid offers of an estimated $5.6 billion extending through 1980. This level of aid should support annual GNP growth on the order of 5 to 10 percent compared with the stagnation Vietnam has experienced to date.

For a variety of reasons, Vietnam has been unable to translate aid pledges into completed projects. Heavy postwar demands on senior Vietnamese policymakers have slowed decisions on organizing aid programs. Hanoi is reluctant to allow many non-Communist advisers into the country even though government leaders admit that the major shortcoming to development of the economy is insufficient managerial and technical talent. Finally, Vietnam's infrastructure cannot absorb aid efficiently. The main port of Haiphong is taxed well beyond its capacity. Southern ports developed during the war are unable to relieve the strain because port equipment has been poorly maintained over the past several years. Internal transportation linking ports with project sites (concentrated in the north) is inadequate, and Hanoi has been reluctant to allow much foreign access to the south. Pilferage and damage to materials and equipment are substantial throughout the country, and government agencies are currently incapable of providing the local component of many projects.

25X1

Postwar Aid Donors

The bulk of postwar aid is being supplied by Vietnam's Communist allies and is mostly tied to specific projects. Perhaps a quarter of Soviet aid, for example, is committed to a 1.7-million-kilowatt hydroelectric project in northern Vietnam. Some Soviet aid takes the form of hard currency purchases of wheat from Australia and other countries, and of petroleum from the Middle East. The Soviets will probably provide or finance the bulk of additional foodgrain purchases that will be needed over the next year to offset

Approved For Release 2002/08/12 : CIA-RDP80T00702A000400070008-2

25X1

Table 2

Vietnam: Postwar Aid and Credit Pledges[1]
1976-80

Million US $

	Total	Grant Aid	Credits	Commercial Credits
TOTAL	5,613	1,155	4,117	341
Non-Communist Developed Countries	1,008	661	292	55
Australia	6	6		
Austria	negl	negl		
Belgium	18	2	4	12
Canada	9	9		
Denmark	50	18	32	
Finland	34	19	15	
France	207	19	155	33
Italy	41	1	30	10
Japan	155	105	50	
Netherlands	41	35	6	
New Zealand	1	1		
Norway	75	75		
Sweden	370	370		
Switzerland	1	1		
Developing Countries	147	45	66	36
Algeria	20	10	10	
ASEAN	negl	negl		
India	92		56	36
Libya	NA	NA	NA	
Mexico	negl	NA		
Iraq	35	35		
Communist	3,831	270	3,561	
USSR	2,500	250	2,250	
China[2]	600		600	
Bulgaria	115		115	
Cuba	12	12		
Czechoslovakia	120		120	
East Germany	210		210	
Hungary	150		150	
Mongolia	negl		negl	
Poland	95		95	
Romania	20		20	
Yugoslavia	9	8	1	
Multilateral	377	179	198	
Syndicated Bank Credits	250			250

[1] Pledges may diverge widely from actual aid receipts. Drawings on Swedish and French aid, for example, are slow and will likely go beyond 1980; most Japanese aid is used as quickly as it is pledged.
[2] Estimated Chinese aid receipts up to cutoff in mid-1978.

the shortfall in the 1978 rice crop. In addition, the Soviets are supplying some 2,000 economic technicians and training for an estimated 15,000 Vietnamese vocational, technical and academic students in the USSR.

25X1

Non-Communist nations will supply an estimated 20 to 25 percent of Vietnam's aid through 1980, on a bilateral basis. The leading donors are Japan, France, and the Scandinavian countries. We see no indications that this share will rise substantially in the next few years. As with Communist aid, most assistance is allocated to specific projects, such as plants producing cement, paper, and bicycles, and facilities for the fishing industry. In addition, aid is used to purchase transport equipment, machinery, petroleum products and grain.

25X1

About $375 million in multilateral aid has been pledged so far. Multilateral aid is provided mainly by the World Bank and International Monetary Fund, United Nations agencies, and the Asian Development Bank. Most aid from these organizations is for irrigation and rural development projects and for food imports.

25X1

Commercial lending to Vietnam has slowed considerably in recent months. Early in the postwar period, Vietnam obtained about $250 million in medium-term loans from European, Japanese, and Hong Kong bank syndicates. The loans were used for ship purchases and for food and petroleum imports. Now, bankers see substantial risks in extending credit further, noting Vietnam's stagnant economy and its preoccupation with both the Cambodian border war and the rift with China.

25X1

China's Economic Role

China's mid-1978 suspension of all economic aid to Vietnam will trouble but not cripple Vietnam's languishing economy. Postwar Chinese aid had already fallen from its estimated peak 1974 level of $420-435 million to about $300 million annually and on less favorable

25X1

 25X1

Table 3

Vietnam: Selected Pledged Aid Programs

	Developed Countries
Australia:	Wheat flour; livestock development; dairy farming; electrification.
Belgium:	Railway repair; wheat.
Canada:	Wheat; agricultural and water supply development; humanitarian relief.
Denmark:	Cement plant machinery; water supply plants; rice drying facilities; ice plant for fishing industry.
Finland:	Dry dock construction; dockyard equipment and training.
France:	Plants producing bicycles, wool, and anise oil; fishing vessels; sugar refinery; fertilizer, plastics, and pharmaceutical imports; wheat; educational facilities.
Italy:	Wheat; tools and spares for tractors and other machinery.
Japan:	Bulldozers, trucks, and coal mining equipment; materials for cement plant; imports of textiles, chemicals, electrical goods, fertilizers, and machinery.
Netherlands:	Steel and industrial products; irrigation and public health projects; rice imports.
Norway:	Development of fishing industry, including ships, dockyards, processing plants, and specialized transport systems; oil industry training; rehabilitation center for war victims.
Sweden:	Pulp and paper mill; hospitals; steel and machinery for cement plants; food aid; family planning programs; reforestation.
Switzerland:	Plant to produce housing materials; health and medical aid.
	Developing Countries
Algeria:	Petroleum products; medical assistance.
ASEAN:	Medical assistance.
India:	Wheat, breeding cattle; railway equipment; scientific training.
Iran:	Technical cooperation in oil, chemical, and aluminum industries.
Iraq:	Petroleum products.
Mexico:	Technical and medical aid.
	Communist Countries
Soviet Union:	Projects in electric power, irrigation, mining, heavy machinery, and machine tool industries; port modernization; city planning; substantial commodity assistance including foodgrains, petroleum products; technical advisors.
China:	Bridge construction; power plants; factories producing textiles, chemicals, sugar, bicycles, and paper; expansion of iron and steel mills; imports of railway equipment, construction materials, trucks, machinery and spare parts.
Bulgaria:	Refrigeration plants; food processing facilities; brickworks; agricultural development.
Cuba:	Cattle breeding; roads; hospitals; technical assistance to sugar industry.
Czechoslovakia:	Power plants; machine tool plants; railway develoment; hospitals.
East Germany:	Steel rolling and wire mills; projects in communications and urban develoment; hospitals; technical training; imports of trucks, building materials, chemicals, and electrical machinery.
Hungary:	Brewery construction; agricultural development; urban reconstruction; minerals sector development; imports of railway equipment, machinery, and electrical and communications equipment.

Approved For Release 2002/08/12 : CIA-RDP80T00702A000400070008-2

Table 3

Vietnam: Selected Pledged Aid Programs (Continued)

Poland:	Railway development; urban reconstruction; sugar factory; aid to coal mining industry.
Romania:	Cement plants; refrigeration facilities; wood processing plants; mining projects; supply of railway equipment.
Yugoslavia:	Food aid, ships; development of cattle and feed industries; wood products factory.
	Multilateral
Aid from multilateral organizations comprises food imports, project loans for irrigation, electrical power, and fisheries development, education and technical training, and rural development.	

25X1

25X1

repayment terms. Since 1975 Peking has been a reluctant benefactor compared with the Soviet Union and East European countries.

Aid to some 100 projects has been halted. Hardest hit are the transport, power, mining, and iron and steel producing sectors. The major project affected is the 5,500-meter Thang Long rail, vehicle, and pedestrian bridge that will supplement existing but inadequate bridge and ferry service across the Red River near Hanoi. The bridge was to be completed by 1980 but will now probably be finished in 1983-84. China also was upgrading rail and road systems in other parts of northern Vietnam. New electric power plants and plant expansions were in progress using Chinese technicians, building materials, and machinery, and development of several coal mines was taking place under Chinese auspices.

25X1

Household consumers will bear the brunt of the suspension of aid to the myriad light industrial facilities for which China had been supplying advisers and equipment. Hanoi planners had advocated expanding consumer goods industries to meet demands long pent up by wartime sacrifice. Small but needed factories that were under construction or operating with Chinese technicians included textiles, food products, pottery, medical supplies, thermos bottles, fountain pens and stationery, and bicycle chains. To switch many of these projects to non-Chinese equipment and processes will be time consuming and expensive.

Chinese contributions to agriculture were confined to the development of a dozen state farms and some small irrigation projects in the northern part of the country. The agricultural sector will be relatively unaffected by delays in completing these projects.

Although the suspension of aid is dramatic, China has not yet resorted to all-out economic warfare. Thus far the $20-60 million in annual overland and seaborne trade between China and Vietnam probably has been reduced by more than half but has not been halted.

Response to China's Aid Cutoff

25X1

Vietnam is having mixed results so far coping with China's cancellation of aid. Hanoi's sudden decision to join the Soviet-dominated Council for Mutual Economic Assistance (CEMA) in June 1978 was the leadership's initial response to heavyhanded Chinese economic pressure. Shortly after Vietnam's membership was accepted, Vietnamese Vice Premier Le Than Nghi visited the USSR, Romania, Hungary, and East Germany while other Vietnamese delegations went to Bulgaria and Poland to solicit aid.

CEMA members are expected to fill, at least partly, the breach left by the Chinese. Although CEMA membership is unlikely to result immediately in substantial loans from the organization, it will facilitate bilateral aid flows from East European countries.

Even though Hanoi wants to avoid becoming wedged more tightly into the Soviet bloc, it has been less successful in getting chary Western nations to fill the gap left by the Chinese withdrawal. [redacted]

Foreign Investment

In April 1977 Hanoi promulgated what would appear to be an unusually liberal investment code to attract foreign private capital. The code calls for a 30- to 40-percent foreign private share in joint ventures with the state and up to 100-percent foreign private share in export-production projects. So far, no foreign companies have taken the bait, citing the imperious attitude of the Vietnamese contract negotiators, difficulties working with the Vietnamese bureaucracy, inadequate guarantees of just recourse in the event of nationalization or contract disputes, insufficient Vietnamese management input, and the existence of less risky, more profitable ventures elsewhere. Several Japanese firms investigated possible joint ventures in chromium mines, silica sand, and rubber, but no proposals have been made. Most recently, Italian firms that were considering possible investment ventures have withdrawn in deference to Italian-Chinese relations.

25X1

Indicative of the problems facing potential foreign investors are the protracted negotiations between Hanoi and Western firms over oil exploration agreements. Just before Hanoi's conquest of South Vietnam, several test wells drilled by Shell-Cities Service and Mobil-Kaiyo (Japan) consortiums indicated good prospects for oil. Exploration halted as the Saigon government approached collapse. Hanoi subsequently repudiated all 13 concession contracts signed by Saigon.

After more than two years of negotiations, Hanoi has signed only three agreements. Earlier this year, West German and Italian firms were granted the right to explore the potentially oil-rich continental shelf southeast of the Mekong Delta. German seismic surveys may have begun this summer, and the Italian firms plan to begin seismic studies toward the end of 1978. A Canadian consortium signed a survey and exploration agreement in early September. Hanoi is currently continuing negotiations with firms from Japan, France, and Norway to contract for exploration programs. Norway conducted some seismic studies early in 1978 but has not yet signed for further exploration. The Vietnamese have indicated they would prefer US technology and expertise, but US law prohibits any dealings between Hanoi and US firms.

25X1

The slow pace of negotiations and lack of any drilling to date are due to Vietnam's inexperience in oil negotiations and its extreme distrust of the Western oil companies. Hanoi technicians and policymakers are slow in grasping the technical and financial aspects of the oil industry. They

25X1

have no operational experience and their technical knowledge is limited to what they can glean from journals and from consultations with small oil-producing nations. Negotiations have been frequently hung up on minor details and especially on the Vietnamese belief that the companies are including substantial benefits for themselves in contract clauses written in obscure legal language. Nonetheless, the Vietnamese have continued to deal with the oil companies because they realize their Communist allies lack the equipment, advanced technology, and funds needed for offshore drilling. In any event, even if drilling gets under way by early 1979 and commercial deposits are discovered, it would be several years before any production could be realized to reduce existing oil import dependence.

25X1

25X1A

Approved For Release 2002/08/12 : CIA-RDP80T00702A000400070008-2

Approved For Release 2002/08/12 : CIA-RDP80T00702A000400070008-2

25X1

Approved For Release 2002/08/12 : CIA-RDP80T00702A000400070008-2